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Current Support Brief

EAST GERMANY PLANS LARGE-SCALE PURCHASES
OF CHEMICAL PLANTS FROM THE WEST



CIA/RR CB 64-61

September 1964

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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EAST GERMANY PLANS LARGE-SCALE PURCHASES
OF CHEMICAL PLANTS FROM THE WEST

East Germany has announced definite intentions to join the parade of Communist countries seeking large-scale purchases of complete chemical plants in the West. A member of the State Planning Commission has stated that 12 plants will be purchased in 1964 and perhaps 2 to 5 in 1965 and that total purchases by 1970 could reach 40 plants or more. 1/ The first of these contracts to be signed, involving an ammonia plant valued at \$10.5 million,* was announced by the UK firm of Humphreys and Glasgow at the Leipzig Fair this September. 2/

Although East Germany already possesses both a well-developed chemical industry and a large chemical equipment industry, the desire to purchase plants and equipment on a large scale from the West has become steadily more apparent since late 1963. A long-range and intensive program for development of the domestic chemical industry plus a relatively large commitment for export of chemical equipment to other countries of the Bloc have posed an admitted strain on the chemical machine building industry. In early 1964, moreover, the program of development was accelerated, and the USSR unexpectedly requested delivery of 100 chemical installations from East Germany between 1966 and 1970. As a result, East German officials have inquired widely in Western Europe and the US concerning the purchase of a large variety of chemical plants. By late August the US Department of Commerce had granted an export license for a plant for production of acrylonitrile, and contracts totaling nearly \$20 million were negotiated with UK and French firms.

1. Equipment Supply Problem in East Germany

The East German chemical industry has had an extensive development program underway since 1958, but major elements of this program have fallen as much as several years behind schedule. In February 1964 the hastened implementation of the program, by which output is planned to increase about 70 percent from the 13 billion East German marks (DME) (\$3 billion) produced in 1963 to slightly more than 22 billion DME (\$5 billion) in 1970, was given highest priority. 3/

* Dollar values are given in current US dollars throughout this publication.

An especially important part of the development program consists of the related construction of petroleum refineries; a large petrochemical complex; and facilities for production of plastics, synthetic fibers, and other synthetic materials. The requirements for equipment for this development have been large. For the petrochemical project, which involves equipment and technology more or less foreign to East German experience, major units for cracking and separating gasoline and for production of polyethylene (plastic) already have been purchased from the UK 4/ and West Germany. 5/

The production capacity of the East German chemical equipment industry has not been sufficient to supply the volume of equipment required both for expansion of the chemical industry and for maintenance of an extensive export program. A substantial part of the output has been drained off through exports to other Bloc countries. The USSR alone received roughly one-fourth of the annual production of about 320 million DME (\$76 million) worth of equipment in 1961 and 1962. 6/ This difficult situation was complicated by an agreement signed in June 1964 for the delivery to the USSR of 100 complete installations during 1966-70. 7/ These deliveries are to include several types of installations that duplicate those being investigated by East Germany for purchase from the West.

2. Interest in Purchase of Western Equipment

The need for a relatively quick solution to the problem of equipment supply has led to specific action in 1964 to increase imports of equipment and complete plants from non-Bloc countries. Changes have been made in the foreign trade organization to centralize responsibility for procurement of large-scale industrial installations, and a number of exploratory negotiations have been carried out with UK, French, Belgian, and Austrian firms. A purchasing commission touring Western European capitals reportedly intends to place orders totaling about \$125 million to \$150 million 8/ for the purchase of a tire plant; a synthesis gas plant; a delayed coking plant; equipment for production of polyester fiber (dacron) and complex fertilizers; and plants for production of hormones, pesticides, and synthetic rubber. (For additional information on these plants, see the table.) In addition, interest has been expressed in plants and technology for production of polypropylene, ethylene dioxide, maleic anhydride, nitric acid, and other chemicals.

The first results of efforts to obtain equipment now are being announced. In August 1964 the US Department of Commerce approved

an application for the export to East Germany of a plant for production of 20,000 metric tons of acrylonitrile per year (used in the manufacture of plastics, synthetic fibers, and synthetic rubber). 9/ Humphreys and Glasgow, a UK engineering firm, announced on 11 September that a contract has been signed for the design and construction of an ammonia plant with a capacity of 510 metric tons per day to be located at the new petrochemical complex in Schwedt. The ammonia is to be used in a nearby nitric acid and ammonium nitrate (fertilizer) plant to be built by the French group, Schneiderjacreusot. 10/ The two projects are to cost about \$20 million, and the contracts involve a credit of 5 years from the mean date of shipment. 11/

3. Negotiation Difficulties and Second Thoughts

The main hurdle in discussions with Western European countries has been the East German desire to obtain credits of at least 5 years and preferably 10 years. The effort to avoid political concessions in return for such credit apparently has led East Germany to favor the UK and France over West Germany. Western plant builders no longer seem to fear that the East Germans simply wish to buy prototypes to copy for fulfillment of export orders to other Communist countries and less developed countries, but some trepidation has been expressed as to the long-range consequences. To discharge the financial obligations incurred through these purchases, East Germany almost certainly will compete increasingly in the world chemical market.

C-O-N-F-I-D-E-N-T-I-A-L

Table

Planned East German Purchases of Chemical Plants from the West a/
Selected Items
1964

<u>Plant or Equipment</u>	<u>Annual Capacity</u>	<u>Location</u>	<u>Cost (Million US \$)</u>	<u>Remarks</u>
Tire plant	200,000 tires	Mecklenburg	N.A.	The contract is to be for a complete plant.
Synthesis gas plant	N.A.	Leuna II, Merseburg	15	The plant is to produce methanol and formaldehyde and is scheduled to begin production in late 1965. The order, however, may go to a French company.
Delayed coking plant for tar residues	60,000 metric tons	Espenhain	N.A.	The plant probably will be purchased in the UK or France.
Plastics processing plant	20,000 metric tons	Bitterfeld	N.A.	The plant is planned to be operational in 1966.
Synthetic fibers and resin equipment	Melamine, 20,000 metric tons Polyester resin, 200,000 metric tons	Guben	N.A.	The equipment is required for production of polyester fiber (dacron). The process and know-how will be East German; only equipment will be from the West.

a. 12/

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Table
Planned East German Purchases of Chemical Plants from the West
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1964
(Continued)

Plant or Equipment	Annual Capacity	Location	Cost (Million US \$)	Remarks
Complex fertilizer plant	40,000 metric tons	Piesteritz	22.4	Production is to consist of nitro- gen, phosphorus, and soda fer- tilizer. Several UK firms are bidding for the contract. The Dominions Export Co. Ltd. is bidding on behalf of an un- announced US corporation.
Hormone plant	N.A.	Mecklenburg	N.A.	The plant will employ East German processes.

C-O-N-F-I-D-E-N-T-I-A-L

Sources:

1. Chemical Week, 27 Jun 64, p. 68. U.
2. Wall Street Journal, 15 Sep 64, p. 5. U.
3. Statistische praxis, Feb 64, p. 29. U.
4. Hydrocarbon Processing and Petroleum Refiner, 12 Oct 62, p. 140. U.
Ibid., Jan 64, p. 174. U.
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11. State, London. Airgram A-474, 25 Aug 64. OFF USE.
12. Chemical Week, 27 Jun 64, p. 68. U.

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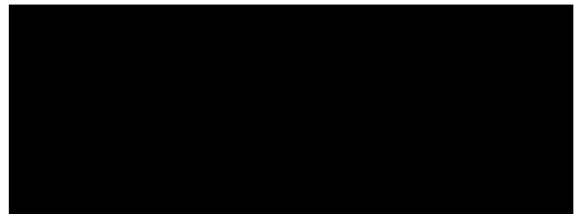
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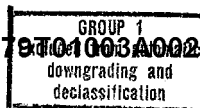
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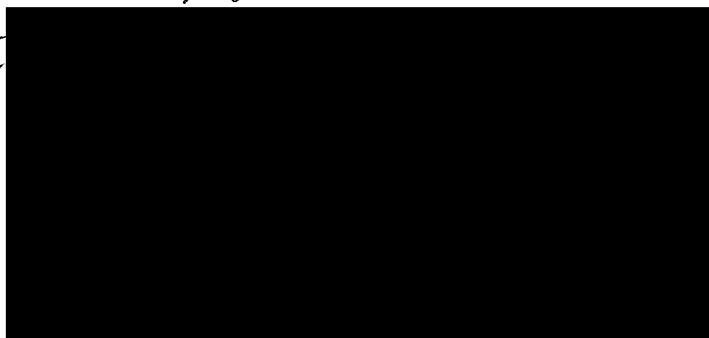
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